PROVINCE OF SASKATCHEWAN

09-10

ANNUAL REPORT

SASKATCHEWAN PENSION ANNUITY FUND

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This annual report is available in electronic format at **www.peba.gov.sk.ca**

Letters of Transmittal

His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2010.

Rod Gantefoer
Minister in Charge
Saskatchewan Pension Annuity Fund

The Honourable Rod Gantefoer
Minister in Charge
Saskatchewan Pension Annuity Fund

Sir:

On behalf of the Saskatchewan Pension Annuity Fund Board, I have the honour to present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2010.

Brian Smith
Board Chair

Chair's Comments

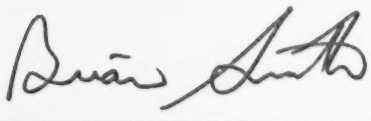
It is my privilege to serve as Chair for the Saskatchewan Pension Annuity Fund Board (the Board). I am pleased to present the 2009-2010 Saskatchewan Pension Annuity Fund (SPAF) Annual Report.

SPAF was originally established by section 43.1 of *The Superannuation (Supplementary Provisions) Act* as the Public Employees (Government Contributory) Annuity Fund. It became known as SPAF with the inception of *The Saskatchewan Pension Annuity Fund Act* on July 1, 1997.

On April 1, 2005, the Board was established. The Board's responsibilities include administration of the Act and Plan, and management and operations of the Fund. Three members are on the Board.

The Board set strategic initiatives from 2007 to 2010. This Annual Report provides details on those initiatives, as well as the Plan's most recent accomplishments and new activities planned through to 2011 are detailed. This is the second year in which there has been reporting on SPAF strategic initiatives.

On behalf of the Board, I am pleased to present the 2009-2010 Annual Report for the Saskatchewan Pension Annuity Fund Board.



Brian Smith
Board Chair

Introduction

The Saskatchewan Pension Annuity Fund (SPAF) was created for members of the Public Employees Pension Plan (PEPP) who want to purchase an annuity as their source of retirement income. *The Saskatchewan Pension Annuity Fund Act* governs SPAF.

The Fund provides members of PEPP with a life annuity paid for the life of the annuitant based on:

- the market conditions at the time the annuity is purchased;
- amount used to purchase the annuity;
- annuitant's and annuitant's spouse's age;
- guarantee period; and
- survivor benefit.

Once an annuity has been issued, neither the annuitant nor the Plan can change terms of the agreement.

Any deficiencies in the Plan are paid out of the General Revenue Fund and are the responsibility of the Government of Saskatchewan.

The annual operating expenditures associated with the Fund's administration are paid to the Public Employees Benefits Agency (PEBA) Revolving Fund and are charged to SPAF.

Saskatchewan Pension Annuity Fund Board

Effective April 1, 2005, the Saskatchewan Pension Annuity Fund Board (the Board) was established to administer the Fund. The Board, which consists of three members appointed by the Minister of Finance, is responsible for the administration of *The Saskatchewan Pension Annuity Fund Act*. At March 31, 2010, the Board was composed of the members listed in *Table 1.1*.

Saskatchewan Pension Annuity Fund Board Members	
Brian Smith	Chair
Clare E. Isman	Member
Dennis Polowyk	Member

Table 1.1

Members of the Board receive no compensation for the performance of their roles as Board members. They are remunerated for reasonable expenses for attending Board meetings and other functions in their capacity as Board members.

Contracted Services

The Board is ultimately responsible for the Fund's administration, communication and investment activities. To discharge these responsibilities, the Board uses the services of various organizations.

The Board contracts with PEBA to provide administrative services for the Fund. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefit plans.

Under contract with the Board, PEBA:

- provides annuity estimates;
- calculates annuity and death benefits;
- prepares statements upon a member's death;
- accounts for all investment transactions; and
- provides executive management services to the Board.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Saskatchewan Pension Annuity Fund Act, The Pension Benefits Act, 1992,* and their related regulations.

The Board retains RBC Dexia Investor Services Trust as the Plan custodian and Hewitt Associates as the investment consultant. The Board also retains Greystone Capital Management Inc. as the investment manager and AON Consulting Ltd. as the actuary.

Purpose

The purpose of the Fund is to provide annuity payments to pensioners who have chosen to purchase annuities through the Fund.

Mission

The Board's mission as the Fund's trustee is to manage the assets and expenses solely in the best interests of the pensioners and their beneficiaries.

Business Initiatives

In June 2009, the Board adopted a Business Plan for the period 2009-2010 to 2014-2015. The Board's business goals as stated in its Business Plan are:

- **Service Delivery, Design and Communications:** Members of the Public Employees Pension Plan have access to information about purchasing annuities from the Fund. Pensioners and their beneficiaries have access to information about the Fund.
- **Plan Governance:** The Board's governance processes ensure the Board has the information needed to provide effective oversight of the Fund.
- **Accountability:** The activities of the Board and its service providers are reported.
- **Risk Management:** Risks facing the Fund are identified and effective strategies are employed to manage those risks.

The initiatives used to support these goals and associated objectives are not generally time bound. Rather, they are initiatives that are required to be undertaken on an ongoing basis.

The following section provides information on activities planned and accomplished in 2009-2010 in support of the Board's initiatives and goals, as set out in the June 2009 Business Plan.

Business Initiatives

A. Service Delivery, Design and Communications

The Board recognizes that the delivery and design of services and communications focus on two different groups which have very different needs. The first group consists of the members of PEPP, the only group eligible to purchase annuities from the Fund. The members of this group are not members of the Fund; however, monies of the Fund have to be expended to ensure this group has information regarding annuities underwritten by the Board. The Board recognizes that this group is dynamic and will require different methods of communication.

The second group is pensioners and beneficiaries receiving annuity payments from the Fund. On an ongoing basis, pensioners' and beneficiaries' primary needs are met by providing annuity payments and annual tax reporting information.

Activities Planned and Accomplished in 2009-2010

- *Determine how information about purchasing annuities from the Fund is being communicated to members of PEPP.*
  - The Board requested a report on how SPAF communicates with members of PEPP about the purchase of life annuities from SPAF. The Board received confirmation that PEPP members receive information about SPAF annuities in the PEPP Member Booklet, in newsletters, information sheets and booklets, on the PEPP website, in general Plan information and at retirement planning seminars.
- *Ensure pensioners and beneficiaries have access to information regarding the Fund.*
  - PEBA mailed postcards to all annuitants in January 2010 to inform them about the SPAF website and to provide information on how to contact SPAF.

Other Initiatives and Activities Planned and Accomplished in 2009-2010

- The PEPP Retirement Income Option booklet and presentation, and the PEPP Overview presentation were developed to relay the message that a combination of the PEPP Variable Pension Benefit (VPB) and a SPAF life annuity may be a flexible retirement option that gives the advantages of both options.
- The website was reviewed on possible improvements. Enhanced navigation to Fund information on the website was implemented in July 2009. Links have been added to the PEBA and PEPP home pages and within the lifecycle communication pages on the PEPP website.
- The online Frequently Asked Questions (FAQs) were amended to include current information in an easy to find format.

Activities Planned for 2010-2011

- Determine whether information about purchasing annuities from the Fund communicated to members of PEPP can be improved.
- Ensure pensioners and beneficiaries have access to information regarding the Fund.

Business Initiatives

B. Plan Governance

The Board's governance processes ensure the Board has the information needed to provide effective oversight of the Fund.

The Board has developed its governance practices and policies in recent years. The Board will continue to implement and maintain its governance program.

Activities Planned and Accomplished in 2009-2010

- *Review of information provided to the Board.*
  - A review of the information the Board receives was completed, and amendments were made to the Board's Governance Manual regarding the information the Board receives in December 2010. The Board added a section to its Governance Manual dictating rules and procedures for acting on information received by the Board and its administrator.
- *Development of a policy manual.*
  - No activity.

Activities Planned for 2010-2011

- Continue development of a policy manual.

Business Initiatives

C. Accountability

Effective Fund management requires a strong focus on accountability, the basis of which is the establishment of measurable objectives and the monitoring of progress against these objectives. To ensure accountability, the reporting of results is critical.

The Board has established administration service standards and a Statement of Investment Policies and Goals (SIP&G) for the Fund.

Activities Planned and Accomplished in 2009-2010

- *Continue to enhance the Board's Annual Report.*
  - Since the enhancements to stakeholder reporting implemented in the 2008-2009 Annual Report, no further enhancements were identified for implementation in this report.
- *Continue to enhance the Fund's website.*
  - A review of the Fund's website was conducted in order to identify enhancements to stakeholder reporting. The results were reported to the Board at its November 2009 meeting. The Board received confirmation that:
    - website navigation had been improved;
    - the listing of FAQs had been updated; and
    - key stakeholder documents, such as the Annual Report, the SIP&G and the Governance Self-Assessment are available on the website.

Activities Planned for 2010-2011

- Continue to enhance the Board's Annual Report.
- Continue to enhance the Fund's website.

Business Initiatives

D. Risk Management

Effective governance requires a strong focus on risk management, the basis of which is the identification and quantification of risks and the development and implementation of effective strategies to manage the risks.

The Board has established an annual risk management planning process. This includes the identification of risks and the development and implementation of strategies to manage the risks. The Board also annually reviews the results of its risk management process.

Activities Planned and Accomplished in 2009-2010

- *Continue the annual risk planning and review processes.*
  - In June 2009, the Board reviewed and approved the Risk Management Review for the year ended March 31, 2009 and approved the Risk Management Plan for 2009-2010.

Activities Planned for 2010-2011

- Continue the annual risk planning and review processes.

Annuity Fund

Investment of Funds

The Board is responsible for holding in trust and investing the monies in the Fund. The Board has retained Greystone Capital Management Inc. as its investment manager.

Greystone Capital Management Inc. continues to manage an immunized bond portfolio (see objectives below).

The investment manager makes the day-to-day decision of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Board. It is these long term investment performance objectives that the Board uses to assess the performance of the investment managers.

The investment objectives are:

- to structure the investment portfolio so that the Fund's net assets are immune to changes in the level of interest rates;
- to provide sufficient liquidity to ensure payment to retired members when due; and
- to ensure long-run solvency.

To achieve those objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -0.5 to +0.5 years of the duration target;
- the portfolio includes sufficient short term investments to meet liquidity needs; and
- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Board has retained RBC Dexia Investor Services Ltd. as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also ensures that investment income (i.e., dividends, interest) is collected and provides financial information for all investment transactions.

The Board engages the services of an asset consultant to provide advice on the overall management of the Fund's investments and on the measurement of the Fund's performance. Hewitt Associates provides this service to the Board.

Fund Administration

The Board has delegated the day-to-day administration of the Fund and management of its assets to PEBA. The cost for this is charged to the Fund.

PEBA is a branch of the Ministry of Finance. PEBA administers a wide range of pension and benefit plans.

Under contract with the Board, PEBA provides all services required to operate, administer and manage the Fund in a manner consistent with and according to all statutory provisions and regulations that apply to the Fund. PEBA reports measurement against standards to the Board quarterly. *Table 1.2* provides measurement results for the 2009-2010 year.

PEBA also provides Senior Executive Officer services and Executive Secretary services to the Board.

In 2009-2010, the Board paid PEBA $192,000 for administrative services.

Annuities

During the 2009-2010 fiscal year the Fund paid a total of $13,618,000 in annuities to 1,996 members or spouses of members.

Figure 1.1 shows the number of annuitants and beneficiaries receiving survivor benefits in the Fund as of the current year-end.

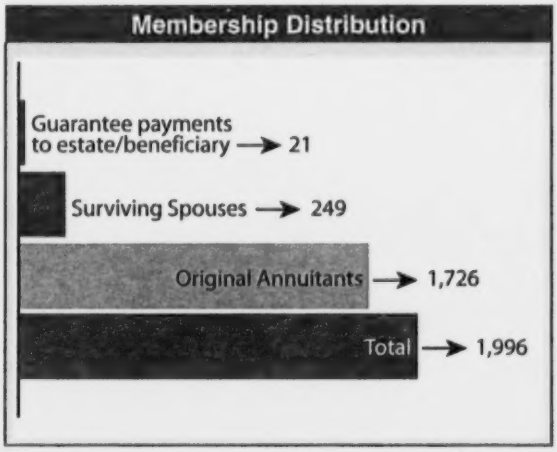


Figure 1.1

PEBA reports measurement of service standards to the Board on a quarterly basis. *Table 1.2* provides measurement results for 2009-2010.

PEBA Service Standards April 1, 2009 to March 31, 2010

Task	Completed	Number that Meet or Exceed Standard	% that Meet or Exceed Standard	Standard* (Days)	Statutory Requirement** (Days)
Statement on retirement	16	16	100.0	5	90
Statement on death	53	52	98.1	5	90
Payment of death benefits	20	19	95.0	5	-
Annuity estimates for PEPP members	526	511	97.1	5	-
Spousal break down calculations	0	0	N/A	5	-
Written correspondence ***	Not measured	Not measured	N/A	5	-
Total	615	598	97.2	-	

* Standard is set within "Schedule A" of the contract between the Board and PEBA.

** Statutory Requirement is a compliance standard within *The Pension Benefits Act, 1992* and *Regulations, 1993.*

*** The majority of written correspondence is received by PEPP Inquiry e-mail. The PEPP Inquiry e-mail receipts and responses are monitored daily by the Assistant Manager.

Table 1.2

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

The Saskatchewan Pension Annuity Fund Board consists of three appointments made by the Minister of Finance. The Board is comprised of a Chairman appointed by the Minister and two other members appointed by the Minister. The Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements, which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been approved by the Board. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position of the Fund.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events, which require approval by management.

The financial statements have been audited by the Provincial Auditor whose report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

Kathy Deck, CGA
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
May 20, 2010

Actuaries' Opinion

Aon Consulting Inc. was retained by the Public Employees Benefits Agency (PEBA) to perform an actuarial valuation of the accumulated provision for annuities payable from the Saskatchewan Pension Annuity Fund (Fund) on an accounting basis as at March 31, 2010.

The actuarial valuation of the Fund's accumulated provision for annuities payable was based on:

- Membership and asset data provided by the Public Employees Benefits Agency as at March 31, 2010;
- Assumptions about future demographic events which were developed by management and Aon Consulting Inc. and are considered as management's best estimate of these events; and
- A discount rate chosen to be consistent with the asset values reported in the Fund's financial statements.

While the actuarial assumptions used to estimate the accumulated provision for annuities payable for the Fund's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Fund's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Fund.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation. In our opinion the methods employed in the valuation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuation has been performed in accordance with accepted actuarial practice.

David R. Larsen, FSA, FCIA
Aon Consulting Inc.

May 20, 2010

Saskatchewan Pension Annuity Fund Board
Saskatchewan Pension Annuity Fund

Financial Statements

Year Ended March 31, 2010

Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Saskatchewan Pension Annuity Fund as at March 31, 2010 and the statements of operations and net assets (deficit), and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 20, 2010

Brian Atkinson, FCA
Acting Provincial Auditor

Saskatchewan Pension Annuity Fund
Statement of Financial Position

Statement 1

As At March 31

(000's)

	2010	2009
ASSETS		
Investments (Note 3)		
Short-term	$ 358	$ 487
Bonds and debentures	164,708	168,652
	165,066	169,139
Receivables		
Accrued investment income	2,210	2,291
Early retirement benefits receivable from employer	1	8
	2,211	2,299
Due from General Revenue Fund (Note 4)	54	63
Total Assets	$167,331	$171,501
LIABILITIES AND NET ASSETS		
Liabilities		
Administration expenses payable	$ 84	$ 58
Accumulated provision for annuities payable (Note 5)	167,079	171,909
Total Liabilities	167,163	171,967
Net Assets (Deficit) (Statement 2)	168	(466)
Total Liabilities and Net Assets	$167,331	$171,501

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund
Statement of Operations and Net Assets (Deficit)

Statement 2

Year Ended March 31

	(000's)	
	2010	**2009**
REVENUES		
Transfers from designated plan	$ 3,218	$ 3,694
Interest income	7,877	8,002
Change in fair value of investments	(1,345)	(1,275)
Total Increase in assets	9,750	10,421
EXPENSES		
Change in accumulated provision for annuities payable (Note 5)	(4,830)	(4,638)
Annuities	13,618	13,707
Administration (Note 6)	328	329
Total decrease in assets	9,116	9,398
Net increase (decrease) in assets for the year	634	1,023
Net Deficit, beginning of year	(466)	(1,489)
Net Assets (Deficit), end of year (Statement 1)	$ 168	$ (466)

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund
Statement of Cash Flows

Statement 3

Year Ended March 31

	(000's) 2010	2009
Cash flows from (used in) operating activities:		
Transfers from designated plan	$ 3,225	$ 3,688
Interest income received	7,958	8,001
Early retirement benefits received	83	104
Annuities paid	(13,618)	(13,707)
Administration expenses paid	(301)	(412)
Early retirement benefits paid	(83)	(104)
	(2,736)	(2,430)
Cash flows from (used in) investing activities:		
Purchase of investments	(16,937)	(21,785)
Proceeds from disposal of investments	19,664	24,257
	2,727	2,472
Net (decrease) increase in Due from General Revenue Fund	(9)	42
Due from General Revenue Fund, beginning of year	63	21
Due from General Revenue Fund, end of year	$ 54	$ 63

(See accompanying notes to the financial statements)

Saskatchewan Pension Annuity Fund
Notes to the Financial Statements

March 31, 2010

1. Description of Fund

The Saskatchewan Pension Annuity Fund (Fund) is established under *The Saskatchewan Pension Annuity Fund Act* (Act). The Act establishes the Saskatchewan Pension Annuity Fund Board to administer the Fund. The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA).

The purpose of the Fund is to provide annuities to members of designated pension plans. Currently, the only designated pension plan is the Public Employees Pension Plan. Members of a designated plan may, upon retirement, elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and investment income from their designated plan to the Fund at the time of retirement.

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund. As the annuities payable are long-term liabilities, and management does not expect to require funding to meet their current obligations, the Fund has not recorded any amount as a receivable from the General Revenue Fund.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The Fund follows accounting policies recommended for organizations that issue annuities. The following accounting policies are considered significant:

a) **Investments**

Investments are stated at fair value. The change in the fair value of investments at the beginning and end of each year is reflected in the statement of operations and net assets (deficit) as change in fair value of investments.

Fair value of investments is determined as follows:

Short term investments are valued at cost which, together with accrued investment income, approximates fair value given the short term nature of these investments.

Bonds and debentures are valued at year-end quoted bid prices from recognized security dealers.

These investments have been designated as held-for-trading.

b) **Investment Income and Investment Transactions**

Investment income is recorded on the accrual basis. Investment transactions are recorded on the trade date.

c) **Accumulated Provision for Annuities Payable**

The accumulated provision for annuities payable represents the present value of the annuities underwritten and is determined pursuant to an annual actuarial valuation.

Any resulting change in the accumulated provision for annuities payable pursuant to the valuation is recognized in the statement of operations and net assets (deficit).

d) **Future Accounting Policy Changes**

For the fiscal years beginning on or after January 1, 2011, the Plan will be required to adopt either the International Financial Reporting Standards or the Accounting Standards Applicable to Pension Plans. The Plan is currently assessing the impact of either standard on its financial statements and related notes.

3. Investments

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

Short-term Investments

Short-term investments are comprised of treasury bills and notes with effective rates of 0.40% (2009 – 0.40%) and an average remaining term to maturity of 1 day (2009 - 86 days). The Fund's investment policy states that investments must meet a minimum investment standard of "R1" as rated by a recognized credit rating service.

Bonds and Debentures

The Fund's investment policy states that federal and provincial government bonds and debentures must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15% of the par value of the bond portfolio may be invested in BBB rated bonds.

No more than 10% of the market value of the bond portfolio may be invested in corporate bonds. At March 31, 2010, the Fund held 2.25% (2009 – 2.07%) of the market value of bonds and debentures in corporate bonds. The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service.

(000's)

	2010						2009		
	Market Value								
Years to Maturity	Federal	Provincial	Corporate	Total	Effective Interest Rate	Coupon Rate	Total Market Value	Effective Interest Rate	Coupon Rate
Under 1	$ 278	$ ---	$ ---	$ 278	0.75	8.75-9.50	$ 3,851	0.63	0.00-10.00
1 - 5	4,285	19,655	2,943	26,883	2.50	0.00-10.25	28,254	2.24	0.00-10.25
5 – 10	12,124	27,493	---	39,617	3.81	0.00-11.25	39,183	3.30	0.00-11.25
Over 10	32,777	64,391	762	97,930	4.54	0.00-10.50	97,364	4.52	0.00-10.50
Market Value	$ 49,464	$ 111,539	$ 3,705	$164,708			$168,652		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Fair Value

The Fund has classified its required fair valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Fund's required financial instruments within a fair value hierarchy:

(000's of dollars)

	Level 1	Level 2	Level 3	Total
Bonds and debentures	$ -	$164,708	$-	$164,708
Short-term	358	-	-	358
Total	$ 358	$164,708	$-	$165,066

4. Due from General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Fund's bank accounts using the Government's thirty day borrowing rate and the Fund's bank account balance. The Government's average thirty day borrowing rate for the current year was 0.27% (2009 – 1.95%).

5. Accumulated Provision for Annuities Payable

The actuarial present value of annuities payable was determined using the administrator's best estimate of future investment performance and inflation. An actuarial valuation was performed as at March 31, 2010 by Aon Consulting Inc. The assumptions used in determining the actuarial present value of annuities payable were:

	2010	2009
Discount rate	4.50%	4.40%
Mortality	95% of UP94	95% of UP94
Expense allowance	2.4% of annuities payable	2.3% of annuities payable

The annual change in the accumulated provision for annuities payable is reflected in the statement of operations and net deficit. The principal components of the change to the accumulated provision for annuities payable during the year were as follows:

	(000's)	
	2010	**2009**
Accumulated provision for annuities payable, beginning of year	$171,909	$176,547
Interest on annuities payable	7,257	7,314
New annuities purchased in the year	3,051	3,572
Change in estimated future administration costs	163	-
Annuities paid	(13,618)	(13,707)
Data correction and experience (gain) loss	(181)	(390)
Change in assumed discount rate	(1,502)	(1,427)
Accumulated provision for annuities payable, end of year	$167,079	$171,909

Actual results may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that changes in future conditions in the near term could require a material change in the annuities payable. A 1% increase in the discount rate would decrease the liability $13.8 million (2009 - $14.6 million) and a 1% decrease in the discount rate would increase the liability $16.2 million (2009 - $17.1 million).

The expected cash inflows from investment income and disposal of investments at maturity and the expected cash outflows to pay the annuities and administration expenses are calculated using the above assumptions. The expected net cash flows are based on actual dollar forecasts without any provision for inflation and they do not allow for future annuitants. The estimated net cash inflows/(outflows) for the next 5 years are ($3.3 million), for the next 10 years $0.1 million and for the next 30 years $8.2 million. The expected duration for investments is 8.87 years and for the accumulated provision for annuities payable is 8.93 years.

6. Administration Expenses

	(000's)			
	2010		**2009**	
	Budget	**Actual**	**Budget**	**Actual**
Administration costs – PEBA	$208	$192	$221	$193
Custodial fees – RBC Dexia Investment Services Trust	8	8	8	8
Investment management fees - Greystone Capital Management Inc.	127	128	137	128
	$343	$328	$366	$329

7. Financial Risk Management

The nature of the Fund's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Fund's investments. These financial risks are managed by having an investment policy, which is approved annually by the Board. The investment policy provides guidelines to the Fund's investment managers for the asset mix of the portfolio regarding quality and quantity of investments. The asset mix helps to reduce the impact of market value

fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Board reviews regular compliance reports from its investment managers and custodian as to their compliance with the investment policy. The Board also reviews regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Fund's credit risk arises primarily from two distinct sources: accounts receivable and investments. The maximum credit risk to which it is exposed at March 31, 2010 is limited to the carrying value of the financial assets summarized as follows:

	(000's)	
	2010	**2009**
Receivables	$ 2,211	$ 2,299
Investments	165,066	169,139
Due from the General Revenue Fund	54	63

Accounts receivable are primarily made up of accrued investment income. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is related to short-term investments, bonds and debentures. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit rating for bonds and debentures are as follows:

	2010		2009	
Credit Rating	Fair Value (000's)	Makeup of Portfolio (%)	Fair Value (000's)	Makeup of Portfolio (%)
AAA	$ 47,229	28.67	$ 71,372	42.32
AA	88,661	53.83	76,580	45.41
A	27,985	16.99	19,888	11.79
BBB	833	0.51	812	0.48
Total	$164,708	100.00	$168,652	100.00

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 1.28% of the market value of the combined bonds and debentures and short term investment portfolios. No one holding of a province is over 4.98% of the market value of the investment portfolio.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates and foreign exchange rates. Market risk primarily impacts the value of investments.

Interest rate risk

The Fund is exposed to changes in interest rates in its fixed income investments, consisting of short-term investments and bonds and debentures. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point change in interest rates would change net assets (deficit) by $14.9 million at March 31, 2010; representing 9.03% of the $165 million fair value of fixed income investments.

Securities collateral

At March 31, 2010, no Fund assets have been deposited or pledged as collateral or margin. As part of the Fund's securities lending strategy, collateral has been pledged to the Fund by various counterparties for securities out on loan to the counterparties. At March 31, 2010, the total amount of collateral pledged to the Fund amounted to $27.6 million (2009 - $22.1 million).

Security lending obtains collateral of at least 105% of the market value of the securities lent. Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Fund is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

8. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related since all are controlled by the Government. Also, the Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences. These financial statements include expenses associated with administering the Fund and are paid to the PEBA Revolving Fund. Related party transactions with the Fund are in the normal course of operations and are recorded at exchange amounts agreed to by the parties to the transactions.

The Fund holds $791,819 (2009 - $1,856,507) Province of Saskatchewan Bonds and Debentures with a yield of 3.80% (2009 – 2.02%). Investment income including change in the market value of $34,515 (2009 - $92,650) was recorded from the Province of Saskatchewan Bonds and Debentures.

At year-end, the Fund has an accounts payable to the PEBA Revolving Fund of $17,477 (2009 - $1,207).

Section 47.5 of the *Superannuation (Supplementary Provisions) Act* authorizes employers to provide early retirement benefits to eligible employees. The Fund pays these early retirement benefits to retired members of the Public Employees Pension Plan on behalf of employers. During the year, the Fund provided early retirement benefits of $83,000 and received reimbursement from the employers. These transactions are not included in the Statement of Operations and Net Assets (Deficit).

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.

9. Fair Value of Financial Assets and Liabilities

For the following financial assets and liabilities the carrying amounts approximates fair value due to their immediate or short-term nature:

a) accrued investment income
b) transfer receivable from designated plan
c) early retirement benefits receivable from employer
d) due from General Revenue Fund
e) administration expenses payable

Fair value of investments are disclosed in note 3.

The fair value of the accumulated provision for annuities payable cannot be readily determined, however information about the estimated provision is provided in note 5.